

Stock Update

An all weather business franchise

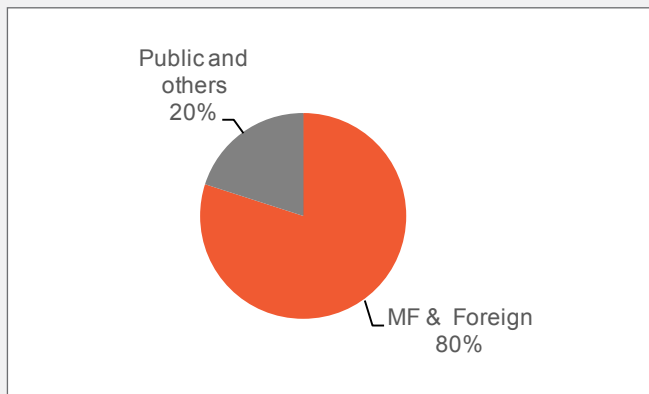
Housing Development Finance Corporation

Reco: Buy | CMP: Rs1,884

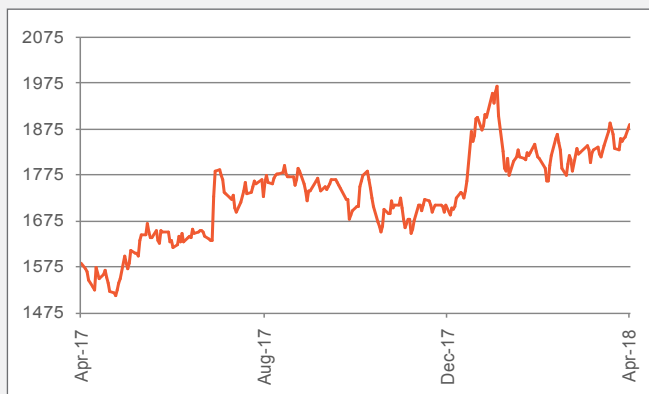
Company details

Price target:	Rs2,200
Market cap:	Rs315,937 cr
52-week high/low:	Rs1,982/1504
NSE volume: (No of shares)	29.2 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (No of shares)	167.59 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.7	-2.7	9.3	19.6
Relative to Sensex	-3.5	0.2	3.3	1.5

Key points

- ◆ **Operating performance in line with expectations:** HDFC Ltd (HDFC) posted strong overall results for Q4 FY18 with robust advances and Net Interest Income (NII) growth as well as steady spreads and NIMs. For the quarter, the strong operating performance continued with NII at Rs 3211 crores, up by 12.6% y-o-y and 10% q-o-q on the back of a strong 18% y-o-y rise in the loan book (as per AUM). During Q4FY18, HDFC recorded a profit of Rs265crore from the sale of its wholly owned unlisted subsidiaries. Consequently, it created an additional special provision of Rs80 crore (~30% of pre-tax gains on the sale proceeds). HDFC has thereby built an additional buffer that can be read as a pragmatic move by the management. After adjusting for exceptional items and one-time transactions (i.e. profit on sale of subsidiaries and consequent special additional provisions), the PBT would have been Rs 11,397 crore for FY18, representing a growth of 13% y-o-y .
- ◆ **Outlook – A business for all seasons:** As it is said, “form is temporary but class is permanent”. HDFC Ltd continues to show its class and consistency by maintaining its strong operating metrics over time and over cycles. We expect HDFC’s growth trajectory to maintain at the current pace, and by virtue of its best in class credit rating, we find low probability of NIMs impact (due to yields hardening). Going forward, the low cost of funds that HDFC enjoys, will also allow it not only to manage competitive pressures but also to maintain profitability. HDFC continues to hold an attractive bouquet of associates / subsidiaries that are attractive business in their own right and provide value to the parent, thereby adding to investor comfort.
- ◆ **Valuation:** HDFC Ltd trades at 4.7x and 4.3x FY19E and FY20E Book value per share respectively. We expect the strong performance track record, superior operating metrics to enable it to continue to enjoy premium valuations. We maintain our BUY rating on the stock with an unchanged PT of Rs 2200.
- ◆ **Steady Loan growth performance appears better with stable asset quality:** During Q4FY18, the loan book at Rs 3,59,442 crore, witnessed continued traction as it increased 21% y-o-y and 5% q-o-q maintaining its high growth trend. The

individual loan book segment (70% of Loans) grew at 18% y-o-y while the corporate book expanded by 17% y-o-y. The incremental loan growth was well balanced, with ~70% of the incremental loans from the individual segment while remaining came from the corporate segment.

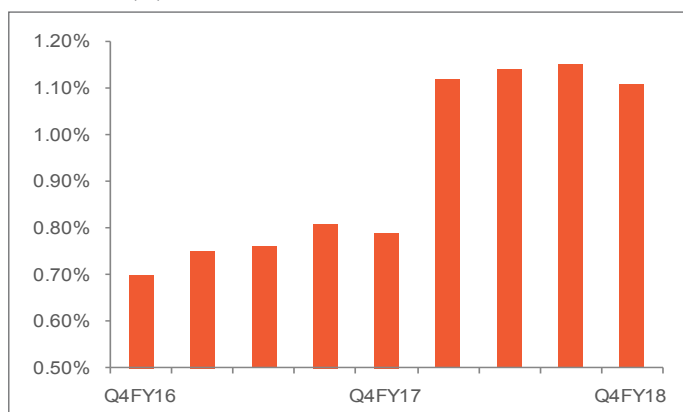
During the year FY18, in value terms, loans to the EWS and LIG segment grew by 32% and 41% respectively on y-o-y basis. Buoyed by the strong asset growth, the net interest margins improved 14 BPS sequentially to 4.0% despite having a volatile bond market during the quarter. During the year, HDFC sold individual loans

amounting to Rs 6,453 crore. HDFC continues to service these loans and is entitled to the residual income on the loans sold. The residual income on the individual loans sold stood at 1.27% per annum and is being recognised over the life of the loans and not on an upfront basis. The growth in the total loan book after adding back loans sold was 23% (21% net of loans sold). For the quarter, the asset quality remained stable as GNPA ratio for Q4 FY18 stood at 1.11% versus 1.15% in Q3 FY18. The non-performing loans of the individual portfolio stood at 0.64% while that of the non-individual portfolio stood at 2.18%.

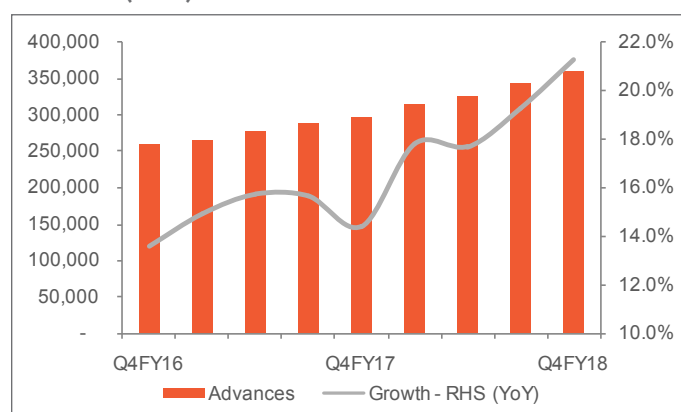
Results

Particulars	Rs cr				
	Q4FY18	Q4FY17	YoY %	Q3FY18	QoQ %
Interest earned	8,921.9	8,090.3	10.3	8,465.0	5.4
Interest expended	5,710.9	5,237.9	9.0	5,545.7	3.0
Net interest income	3,211.0	2,852.4	12.6	2,919.3	10.0
Non-interest income	891.2	552.1	61.4	5,647.5	-84.2
Net total income	4,102.2	3,404.5	20.5	8,566.8	-52.1
Operating expenses	405.0	320.3	26.4	410.2	-1.3
Pre-provisioning profit	3,697.2	3,084.2	19.9	8,156.6	-54.7
Provisions	180.0	148.0	21.6	1,670.0	-89.2
Profit before tax	3,517.2	2,936.2	19.8	6,486.6	-45.8
Tax	671.0	892.0	-24.8	820.0	-18.2
Profit after tax	2,846.2	2,044.2	39.2	5,666.6	-49.8
Key items					
Loans	359,442	296,472	21.2	342,136	5.1
Borrowings	320,656	280,534	14.3	307,978	4.1
Spread (%)	2.29	2.33	-4 bps	2.29	0 bps
Gross NPA %	1.11	0.79	32 bps	1.15	-4 bps

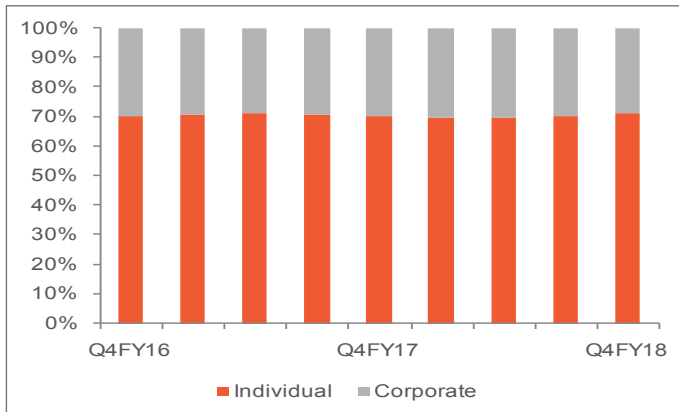
Gross NPA (%)



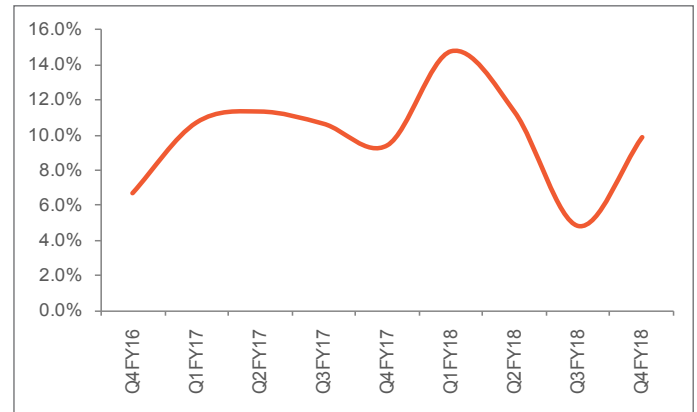
Advances (Rs cr)



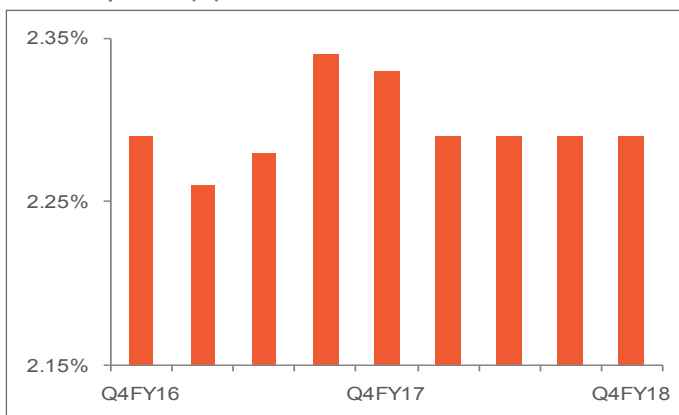
Loan book break-up (%)



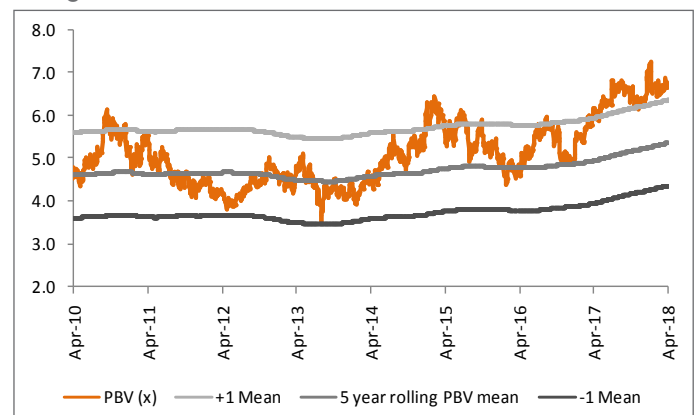
Cost- Income ratio (%)



Interest spreads (%)



One-year forward P/BV SD band



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